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EX PARTE OR LATE FILED

EX PARTE

September 5, 1996

Mr. William F. Caton
Secretary
Federal Communications Commission
Room 222
1919 M Street, NW
Washington, D.C. 20554

Re: CC Docket No. 96-45: Federal-State Joint Board on Universal Service

Dear Mr. Caton:

Yesterday, Jonathan Sallet, Michael Pelcovits and Kathy Pounds met with Commissioner Julia Johnson and Mark Long of the Florida Public Service Commission to discuss MCI's position in the above-referenced proceeding. The attached document was used during the discussion.

Because the meeting was held yesterday afternoon in Florida, this letter is being filed the next business day.

Sincerely,

Mary J. Sisak

cc: Julia Johnson

OH

Comprehensive Reform of Universal Service is Required

- Competition is the best guarantor of universal service
- Universal service must be revised to comply with Section 254
- A unitary fund should be established to meet national universal - service needs

Universal Service and Access- Charge Reform

- Access charges must be set at economic cost
- Currently, each dollar of an interstate access charge includes:
    - 12 cents to reimburse the LECs for real costs
    - 23 cents to support universal service
    - 65 cents of monopoly excesses

Section 254 Universal - Service Principles

- Subsidies must be explicit
- Quality services should be available at just, reasonable, and affordable rates
- Access to advanced telecommunications and information services should be provided in all regions of the Nation
- Low-income consumers and those in rural, insular, and high cost areas should have access to telecommunications and information services that are reasonably comparable to those services provided in urban areas and that are available at reasonably comparable rates
- Elementary and secondary schools and classrooms, health care providers, and libraries should have access to advanced telecommunications services

Matrix of Universal Service Issues

	Individuals	High-Cost Places	Institutions
Eligible Services	**MCI** Maintain Lifeline and Linkup	**MCI** -- Single party service to the first point of switching; local usage; -- touch tone; -- white pages listing -- access to 911, E911, operator services, directory assistance and relay service	**MCI** -- Data grade (Internet) service with incentives for broader bandwidth
Eligible Participants	**MCI** Low-Income People	**MCI** All/High-Cost Residents	**MCI** Schools, Libraries with state approved plans
Calculation of Subsidy	**MCI** Lifeline and Linkup would be maintained as targeted subsidy programs for low-income consumers	**MCI** Difference between the TELRIC (Hatfield) cost and the current nationwide average rate for basic service.	**MCI** TELRIC with larger discounts for (I) low income areas (II) greater bandwidth
Competitively Neutral	**MCI** 1. True Competition is the first step. 2. All subsidies are explicit and in fund. 3. The subsidy is recovered from all telecommunications carriers based on their relative revenues, net of payments for the services of other telecommunications carriers 4. Neutral Administrator	**MCI** Same as "individuals" and: A "carrier of last resort" auction would be held for any area that is or becomes unserved	**MCI** Same as "individuals" and: Requirement of competitive bidding
Evolution	(e.g., Call Waiting)	(e.g., Call Waiting)	(e.g., ISDN)

Steps to Implement a Unitary Universal Service Fund

- Define the service to be subsidized
- Determine the amount of subsidy needed
- Generate funding in a competitively-neutral manner
- Distribute funding in a competitively-neutral manner

Definition of Basic Universal Service

- Residential access to the first point of switching
- Local usage
- Touch tone
- Access to operator services, 911, E911, directory assistance, and relay service
- A white pages directory listing

Universal Service Costs should be Determined Using Forward - Looking Economic Cost Models

- Forward looking models will yield the right level of subsidy and direct it to where it is needed most
- The TELRIC methodology, ordered by the FCC in the Interconnection Order, should be extended to universal service

Hatfield Implements TELRIC to Determine Size of Subsidy

- Determines the cost of basic universal service using efficient technology and network design
- "Scorched Node" network consistent with the FCC's Interconnection Order

Hatfield Models Key Cost Drivers

- Model analyzes density of subscriber lines from low of 0-5 lines per square mile (rural) to high of greater than 2550 lines per square mile (urban)

Hatfield Model Includes all Costs

- Capital costs for all network components
  - Loop, switching, interoffice transport and signalling
- Expenses, including joint and common costs
  - Plant specific, non-plant specific, customer operations and corporate operations ("overhead")

Calculation of Universal Service Costs for BellSouth- Florida

- Network costs from Hatfield TELRIC model
  - costs of loop vary significantly by density zone
  - costs of port, usage, signalling and transport
- Customer operations costs
- Cost per line in each density zone multiplied by number of lines in each zone

COST OF NETWORK ELEMENTS Florida BELLSOUTH TELECOMM INC - FL

A. Loop elements

	0 - 5 lines/sq mi	5 - 200 lines/sq mi	200 - 650 lines/sq mi	650 - 850 lines/sq mi	850 - 2550 lines/sq mi	> 2550 lines/sq mi	Totals
Loop Distribution (including NID)							
Annual Cost	$ 7,487,451	$ 84,050,969	$ 58,232,677	$ 18,110,544	$ 115,145,884	$ 201,434,722	$ 484,462,246
Unit Cost/month	$ 66.44	$ 20.32	$ 10.09	$ 7.45	$ 6.08	$ 5.15	$ 6.87
Loop Concentration							
Annual Cost	$ 730,137	$ 15,844,776	$ 19,310,053	$ 8,107,560	$ 54,981,348	$ 78,014,725	$ 177,088,600
Unit Cost/month	$ 6.48	$ 3.85	$ 3.35	$ 3.33	$ 2.90	$ 1.99	$ 2.51
Loop Feeder							
Annual Cost	$ 846,559	$ 9,434,699	$ 8,914,638	$ 3,564,933	$ 42,622,103	$ 96,546,724	$ 162,029,656
Unit Cost/month	$ 8.40	$ 2.28	$ 1.54	$ 1.47	$ 2.26	$ 2.47	$ 2.30
Total Loop							
Annual Cost	$ 9,184,148	$ 109,430,444	$ 86,457,368	$ 29,783,038	$ 212,729,335	$ 375,996,171	$ 823,580,501
Unit Cost/month	$ 81.32	$ 26.46	$ 14.98	$ 12.24	$ 11.23	$ 9.61	$ 11.68
Total lines	9,391	344,682	480,883	202,704	1,578,133	3,259,031	5,874,804
Total lines served by D	8,742	318,276	382,700	157,493	1,047,915	1,460,788	3,375,912

Basic local service monthly costs per line

	0 - 5 lines/sq mi	5 - 289 lines/sq mi	290 - 650 lines/sq mi	650 - 850 lines/sq mi	850 - 2550 lines/sq mi	> 2550 lines/sq mi	Weighted Average	Reported to NECA
Network costs								$ 307.52
Loop	$ 82.92	$ 27.12	$ 15.43	$ 12.82	$ 11.54	$ 9.84	$ 11.88	$ 25.83
Port	$ 1.02	$ 1.02	$ 1.02	$ 1.02	$ 1.02	$ 1.02	$ 1.02	
End office usage	$ 1.41	$ 1.41	$ 1.41	$ 1.41	$ 1.41	$ 1.41	$ 1.41	
Signaling	$ 0.04	$ 0.04	$ 0.04	$ 0.04	$ 0.04	$ 0.04	$ 0.04	
Transport	$ 0.08	$ 0.06	$ 0.06	$ 0.06	$ 0.06	$ 0.06	$ 0.06	
Billing/bill inquiries	$ 1.44	$ 1.44	$ 1.44	$ 1.44	$ 1.44	$ 1.44	$ 1.44	
Directory listing	$ 0.18	$ 0.18	$ 0.18	$ 0.18	$ 0.18	$ 0.18	$ 0.18	
LNP expense (when ava	$ 0.30	$ 0.30	$ 0.30	$ 0.30	$ 0.30	$ 0.30	$ 0.30	
Total monthly cost per (assumes LNP available)	$ 87.37	$ 31.56	$ 19.87	$ 17.06	$ 15.99	$ 14.28	$ 16.73 wtd by hh	
Total lines	9,391	344,682	480,883	202,704	1,578,133	3,259,031	5,874,804	5,328,280
Total households	8,434	222,450	301,930	123,878	925,727	1,586,787	3,237,216	
Annual Subsidy @ $20.00	$ 5,201,213	$ 30,883,854	0	0	0	0	$ 36,065,067	$ 11,715,022.82
$30.00	$ 4,429,133	$ 4,169,854	$ 0	$ 0	$ 0	$ 0	$ 8,598,987	
$40.00	$ 3,657,053	0	0	0	0	0	$ 3,657,053	

Hatfield is Superior to other Models

- BCM2 was an attempt by the LECs to "catch up" with the innovations contained in the Hatfield Model
- Hatfield 2.2.2 goes well beyond the improvements introduced by the ILECs in BCM2
- BCM2 and PacBell models are much more closed, proprietary models than HM2.2.2

Unitary Universal Service Fund Is Approximately $6 Billion

- The subsidy is the difference between the nationwide average revenues from residential local service plus the subscriber line charge ($20) and the TELRIC as calculated using the Hatfield model.

Administration of Fund

- A block grant of the total state subsidy would be given to the states for allocation among carriers.
    - The states could use the model to determine the allocation for each carrier
    - The states could use some other allocation mechanism
- Carriers would contribute to the fund based on their relative total revenues, net of payments for services of other telecommunications carriers
- A neutral third party administrator would collect payments from carriers and remit subsidy to the states.

Universal Service Computed by Hatfield will Protect Consumers

- Consumers would fund universal service only to the extent it is needed
- Consumers would not fund the LECs' inefficiencies reflected in their embedded costs
- Carriers would have the incentive and funds needed to support infrastructure development and to maintain service quality

Universal Service for Low-Income Consumers

- Lifeline
- Link-up

Universal Service for Schools and Libraries

- Internet links at TELRIC
- Tiered, below-cost discounts for small, remote areas and low-income neighborhood schools and libraries
- Targeted discounts to encourage high-bandwidth connectivity
- Schools and libraries to develop plans for funding and implementing necessary infrastructure
- Competition among service providers